

Down on the Estate

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Members of the Senate who prefer not to be weighed down with a lot of paper could do themselves a favor when they return from vacation to confront the reform of the estate tax. The Congressional Budget Office has a simple set of numbers that will give them an idea of how few people are affected by the tax, and that despite the imagined threat to the family farm, the tax falls on a tiny percent of the well-off taxpaying public.

The estate tax - the death tax, in the language of conservative political organizations - hits just over 2 percent of estates in 2000 when the exemption stood at \$675,000, according to the CBO. That percent would have dropped even from there, however, if in that same tax year the exemption had been \$3.5 million, which it is scheduled to be in 2009. The number of estates then affected would have been less than two-tenths of 1 percent, or about 3,700 nationwide. At the \$1.5 million, or current level, the percentage affected would have been about one-half of 1 percent.

The reason repeal of this tax has support is that the public has been told it is crushing family farms or to small businesses as they get passed from one generation to the next. Under the old estate tax that did happen a comparatively small number of times. But the simple act of raising the exemption level largely took care of the problem. The family-farm stories persist, however, thanks to an advertising blitz in rural states to persuade senators to support the tax's permanent elimination. The advertisements do not say but suggest that family farms are part of the most elite estates in America and therefore need protection. This seems unlikely.

Yet repealing the estate tax would cost the federal treasury \$290 billion over the next 10 years when Congress and the White House already cannot balance the budget, health care for the poor is being cut by \$10 billion, the war in Iraq costs \$1 billion a week and the alternative minimum tax is hitting lower and lower tax brackets. Health care for the poor and body armor for the troops aren't free. They get paid for with taxes, either now or as a tax burden plus interest for the next generation.

Defenders of eliminating the estate tax may acknowledge all this but respond that the estate tax is unfair because it is double taxation. But the majority of assets in estates worth more than \$10 million consist of untaxed capital gains, according to a Brookings Institute study. Those are property or stocks and bonds that have risen in value since they were bought but that added value has never been taxed. And try this at home: the next time a store tries to hit you with sales tax point out to the clerk that the money you're paying with has already been hit with income tax and you don't want to pay a double tax. Don't expect sympathy.

A very small number of estates pay a large share of taxes - minus exemptions (double for married couples) and minus the tax shelters available to them - when those estates are passed along to heirs. Requiring the wealthy to pay more in federal taxes than the middle class or the poor, especially on wealth they have neither earned nor has ever been taxed, is not demanding too much. The Senate will consider several versions of a reformed estate tax, including those that repeal the tax or effectively repeal it by lowering the tax rate and excluding capital-gains increases.

The Senate should reject these ideas in favor of a tax that protects whatever small businesses remain unprotected but maintains the revenues that government needs and will need more of in the future.